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SUBJECT: NEW PUBLICLY-OWNED BANK "WARBA" WILL GIVE CITIZENS
FREE SHARES IN GROWING ISLAMIC BANKING SECTOR, BUT WILL IT
GIVE THEM A SENSE OF OWNERSHIP IN KUWAIT, INC?

Classified By: Classified by Economic Counselor Oliver B. John
for reasons 1.4 (b&d).

11. (C) On Sept. 15, the Kuwaiti cabinet announced the creation of Warba Bank as a public shareholding company and the fourth Sharia-compliant bank in the country. Warba Bank is being established by Amiri Decree and will have a share capital of KD 100 million (USD 350 million). Kuwaiti citizens will own a 76 percent stake in the bank (valued at USD 265 million), with the remaining 24 percent of Warba's stock held by Kuwait Investment Authority, the nation's sovereign wealth fund. The press has reported that the bank will be capitalized at one billion shares of KD 100 fils (35 cents) each, and the GoK will cover the cost of citizens' subscriptions (i.e., give the shares to Kuwaiti citizens). Observers expect the bank to open in the 2010/2011 timeframe.

According to Central Bank officials, it has not yet put its papers in for licensing. Some observers here hold out hopes that the distribution of free shares can build an "ownership society" among less well-connected conservative tribal elements, and possibly serve as a model to build support for economic reform.

12. (SBU) In separate conversations with Econoff, Abdullah Yousef Al-Saif, Sharia Compliance Consultant for the Bank of Kuwait & the Middle East and Fawaz M. Al-Kulaib, Assistant Manager for Boubyan Bank's Sharia Compliance Department, welcomed the addition of Warba, arguing that it brings Kuwait closer to its long-term goal of becoming an international Islamic banking hub. Al-Kulaib further asserted that Kuwait's financial market was capable of absorbing more banks like Warba. Warba is starting with the same capital amount (KD 100 million) as Boubyan Bank started with in 2004.

(NOTE: Boubyan Bank has grown slightly since its founding. At the end of 2008, shareholders' capital was KD 116 million. Total equity was KD 137.5 million. Assets under management are KD 840.5 million, USD 2.9 billion. END NOTE.)

13. (SBU) Kuwait's Islamic banking market is one of the oldest in the region. Kuwait Finance House (KFH) was established in 1978 by Amiri fiat, and had an effective monopoly in Kuwait's most important business sectors: real estate and oil. KFH was not regulated by the Central Bank (CB), until Law 30 was passed by parliament in 2003. According to Al-Saif, Law 30 allowed new Islamic banks to be established and conventional banks to convert to Islamic ones.

14. (C) COMMENT: Although Warba is the fourth in a string of Islamic banks, giving shares away to all citizens is novel.

At first glance, this can be seen as the logical next step in the GoK's policy of transferring the country's oil wealth to its people through a generous system of government largesse (whether subsidized housing, free education, or government contracts). However, the Warba experiment could potentially represent something quite different: an effort -- though paternalistic -- to give all citizens a sense of

ownership and a stake in their country's economic future. In theory, GoK's provision of free shares to all citizens could serve to make them actual stakeholders - particularly if the bank makes money - and if it works with Warba, it could work with future projects. Of course, the unanswered question is whether these shares will in fact provide the relative have-nots of Kuwaiti society (particularly tribal elements), with a greater sense of ownership in a commercial realm historically dominated by merchant families. The size of the grant (about \$240 per Kuwaiti citizen), and the fact that the shares do not vest and consequently cannot be traded for three years (in an effort to prevent shares from being snatched up by wealthier investors), may lead some recipients here to dismiss the government's gesture as just another handout - and not a particularly valuable one at that. END COMMENT.

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